

U.S. and Washington State Economic Outlook

Presented to
The Institute for Real Estate Management

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Seattle, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- Our current forecast continues to call for moderate growth in the U.S. and Washington economies
- Oil prices are expected to rise slowly over the next few years
- The forecast assumes the Federal Reserve will increase interest rates in December
- We continue to expect Washington to outperform the nation by a small margin
- Downside risks to the baseline forecast include slow global and U.S. economic growth, the impact of a stronger dollar on exports, weak labor productivity growth



Economic news continues to suggest risks to forecast

Upside:

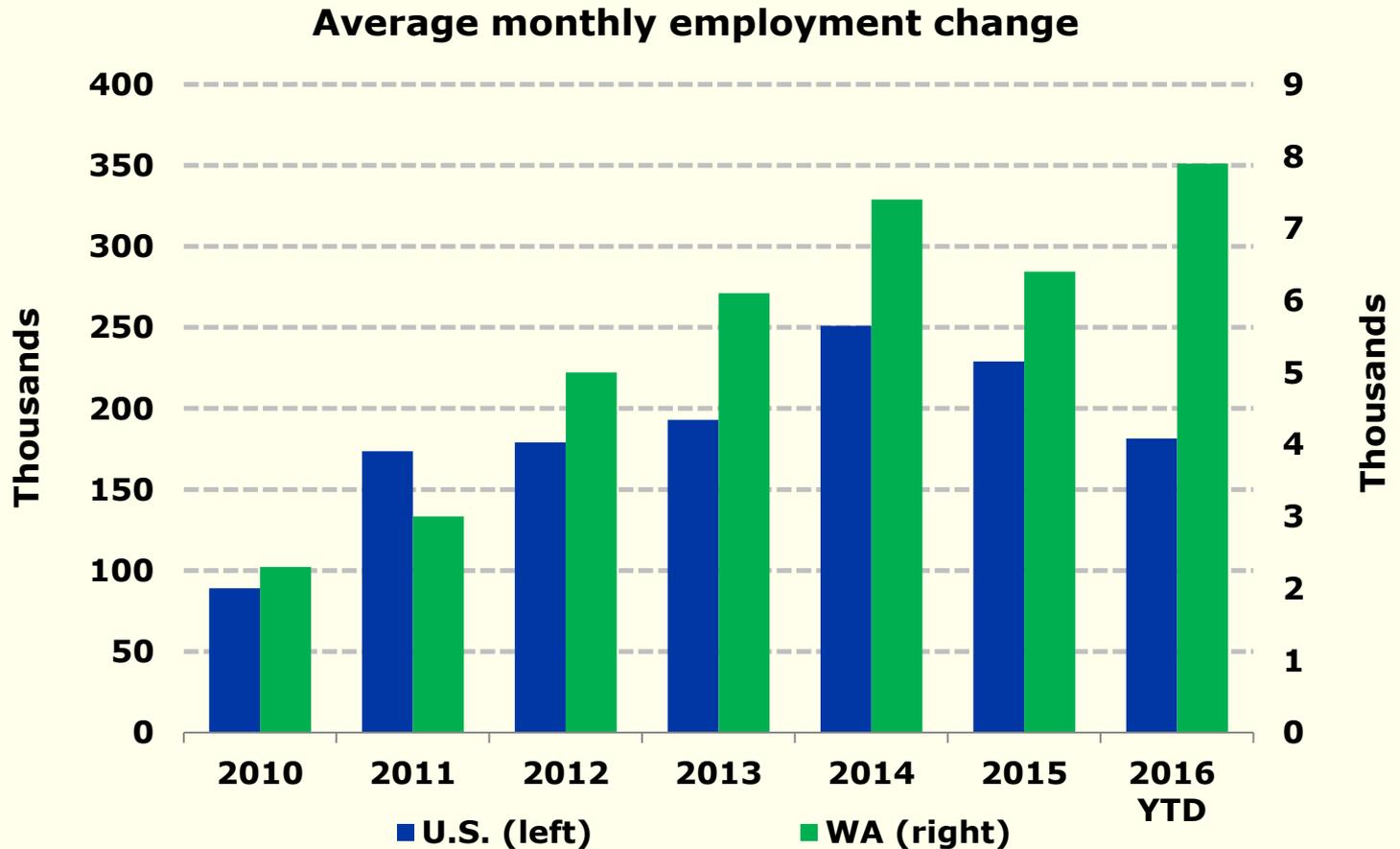
- Stronger than expected Washington job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Weak growth in labor productivity



So far in 2016, employment change in WA is stronger than last year

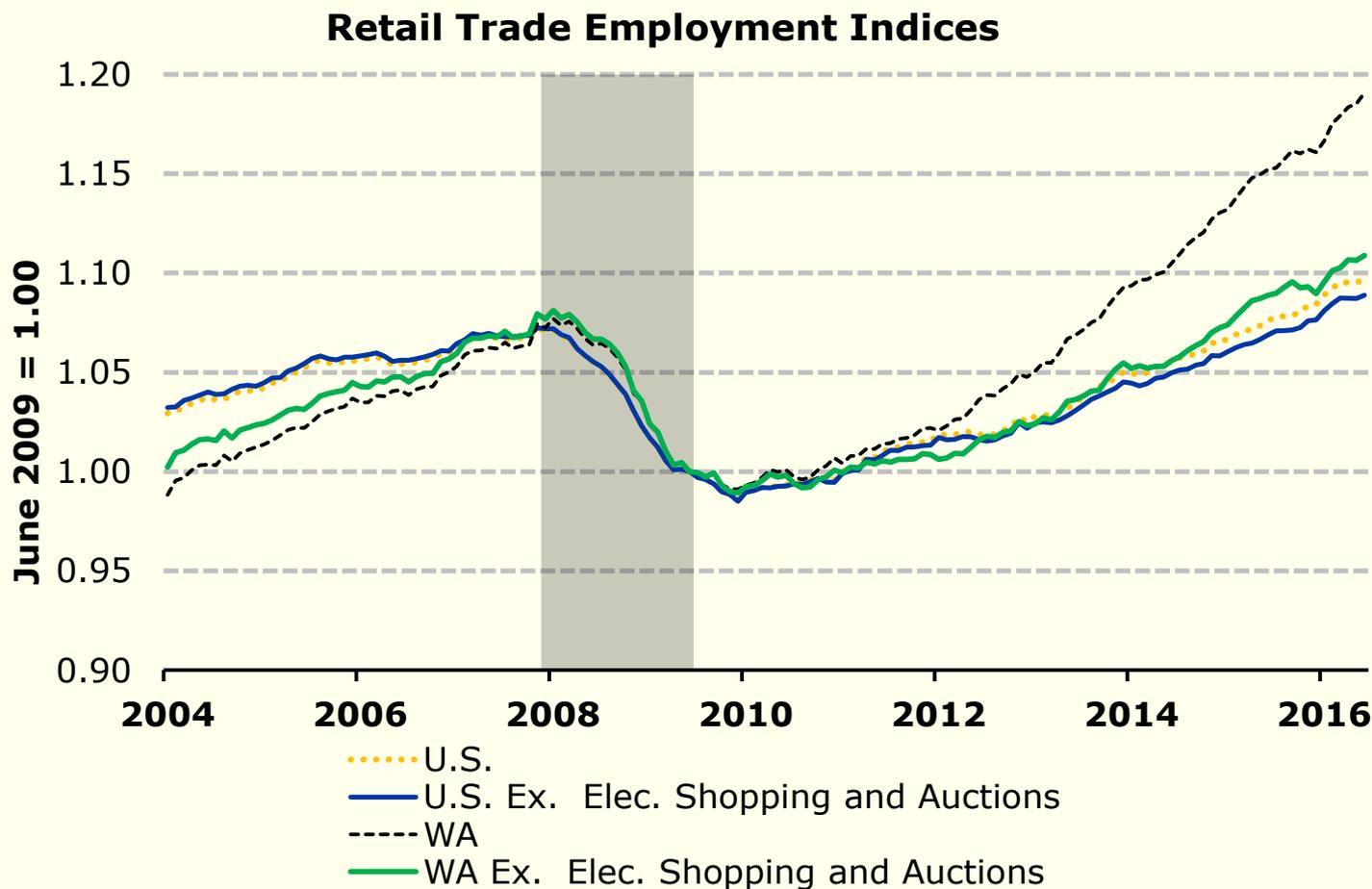




Retail trade employment growth has been much stronger thanks to electronic shopping and auctions

Washington retail trade employment has grown 19% since the end of the recession compared to only 10% for the nation.

Excluding electronic shopping and auctions, the difference is much smaller, 11% for Washington compared to 9% for the nation.



Source: BLS, ESD data through June, 2016

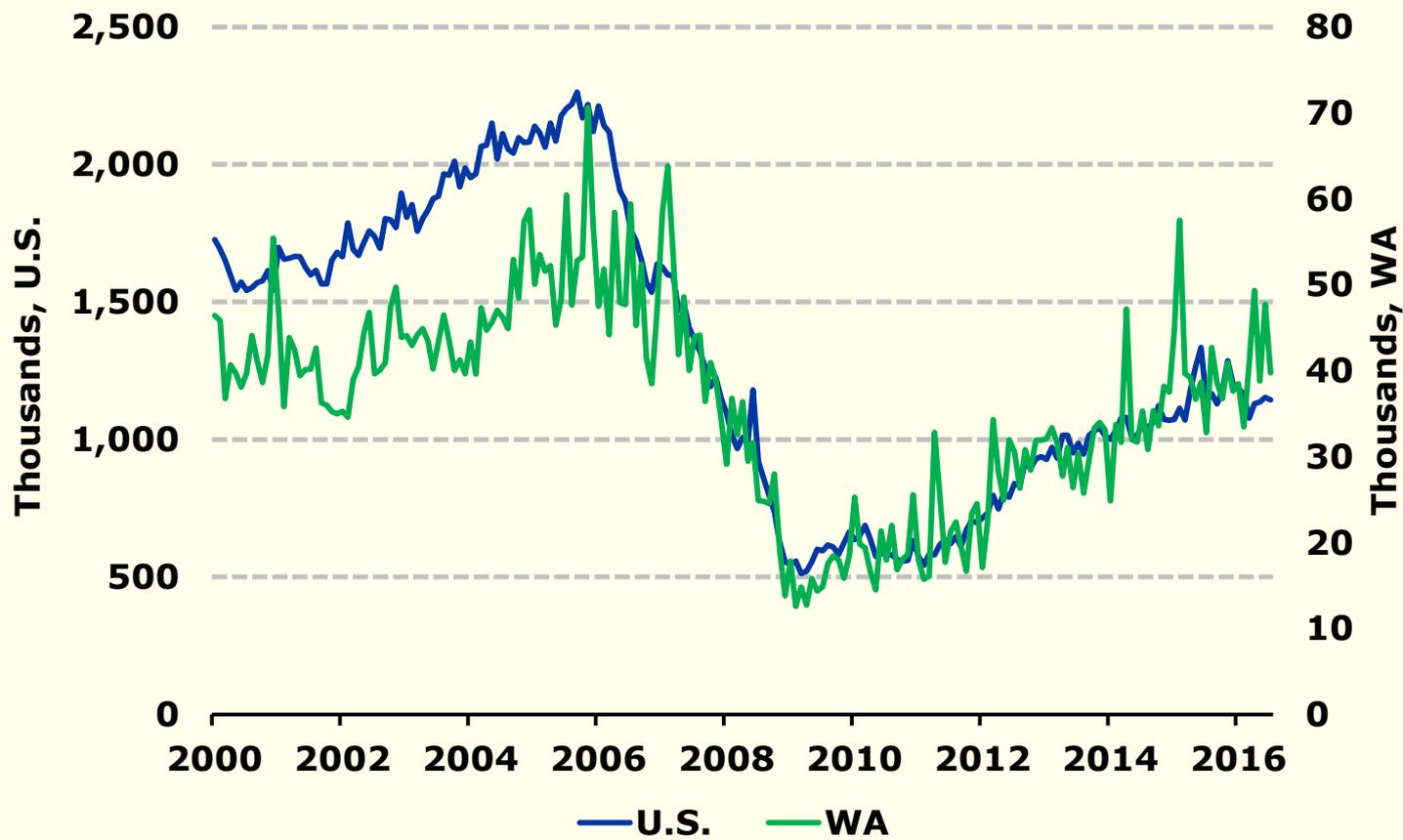


Wage growth has slowed this year but remains positive



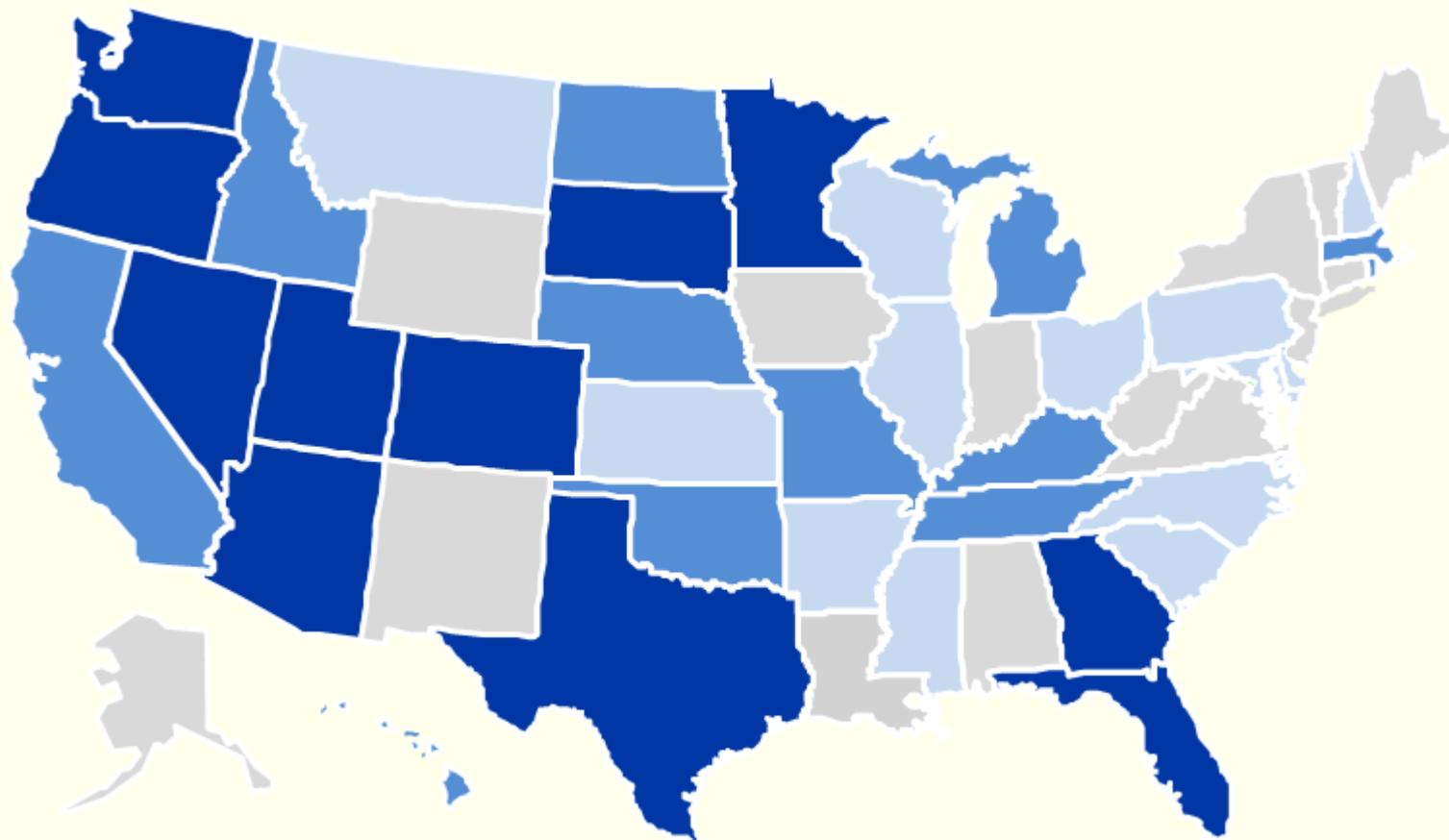


U.S., WA housing permits trending up; U.S. remains below historical averages





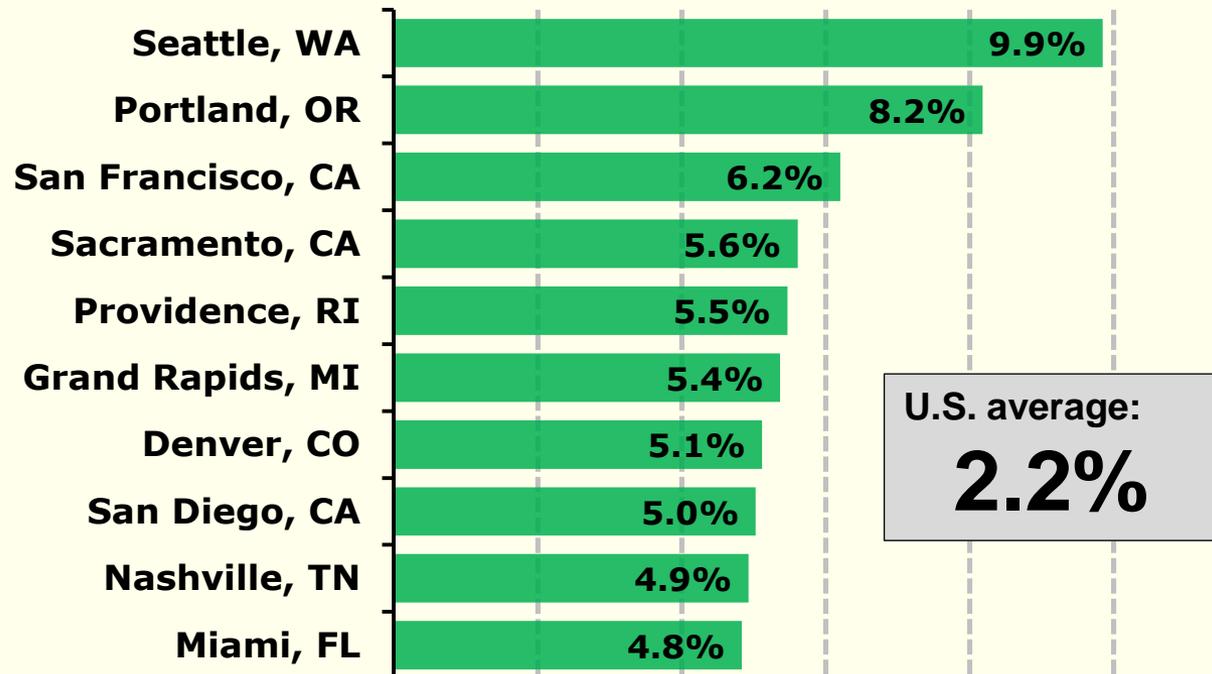
Washington ranks 3rd in year-over-year home price growth





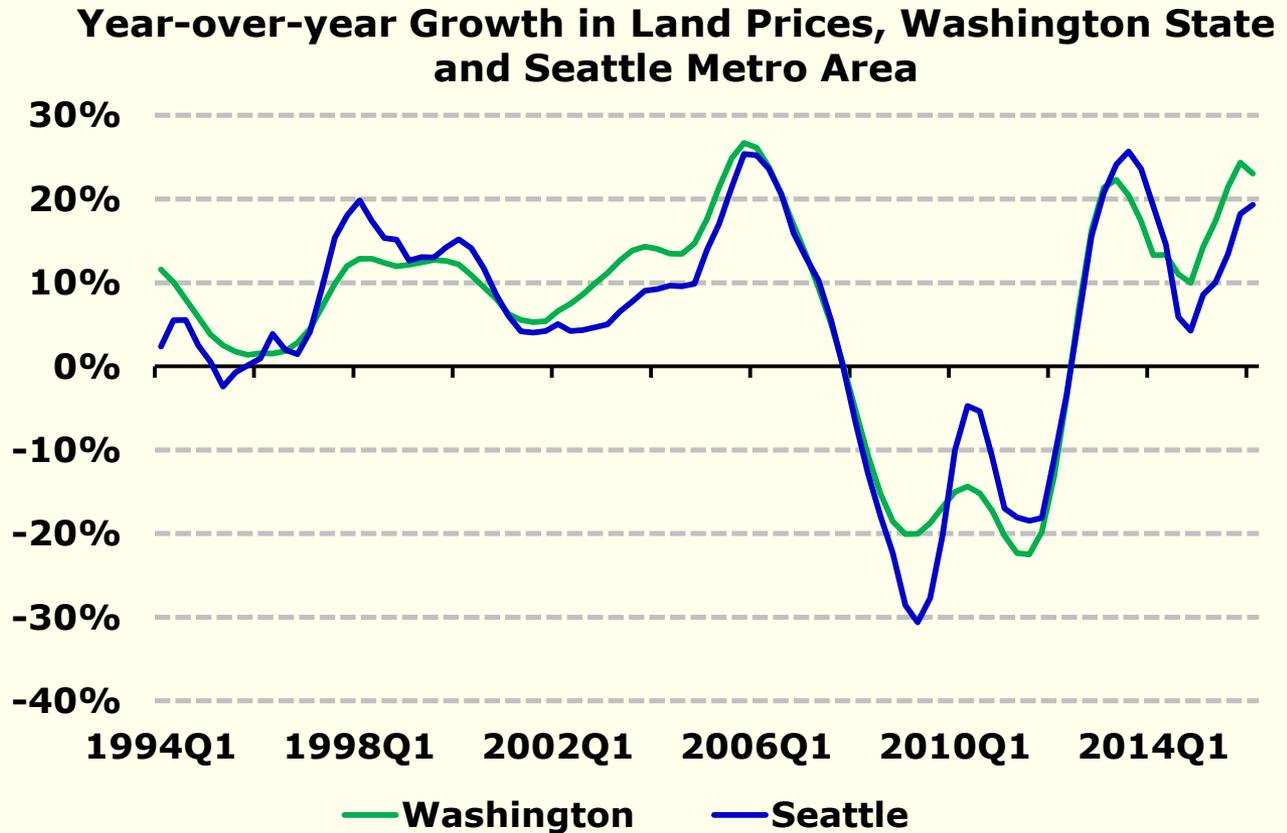
Seattle leads U.S. metro areas in rental price growth

**Top Ten U.S. Metro Areas
Year-over-Year Growth in Rental Prices**





Land value is increasing in Seattle and across the state

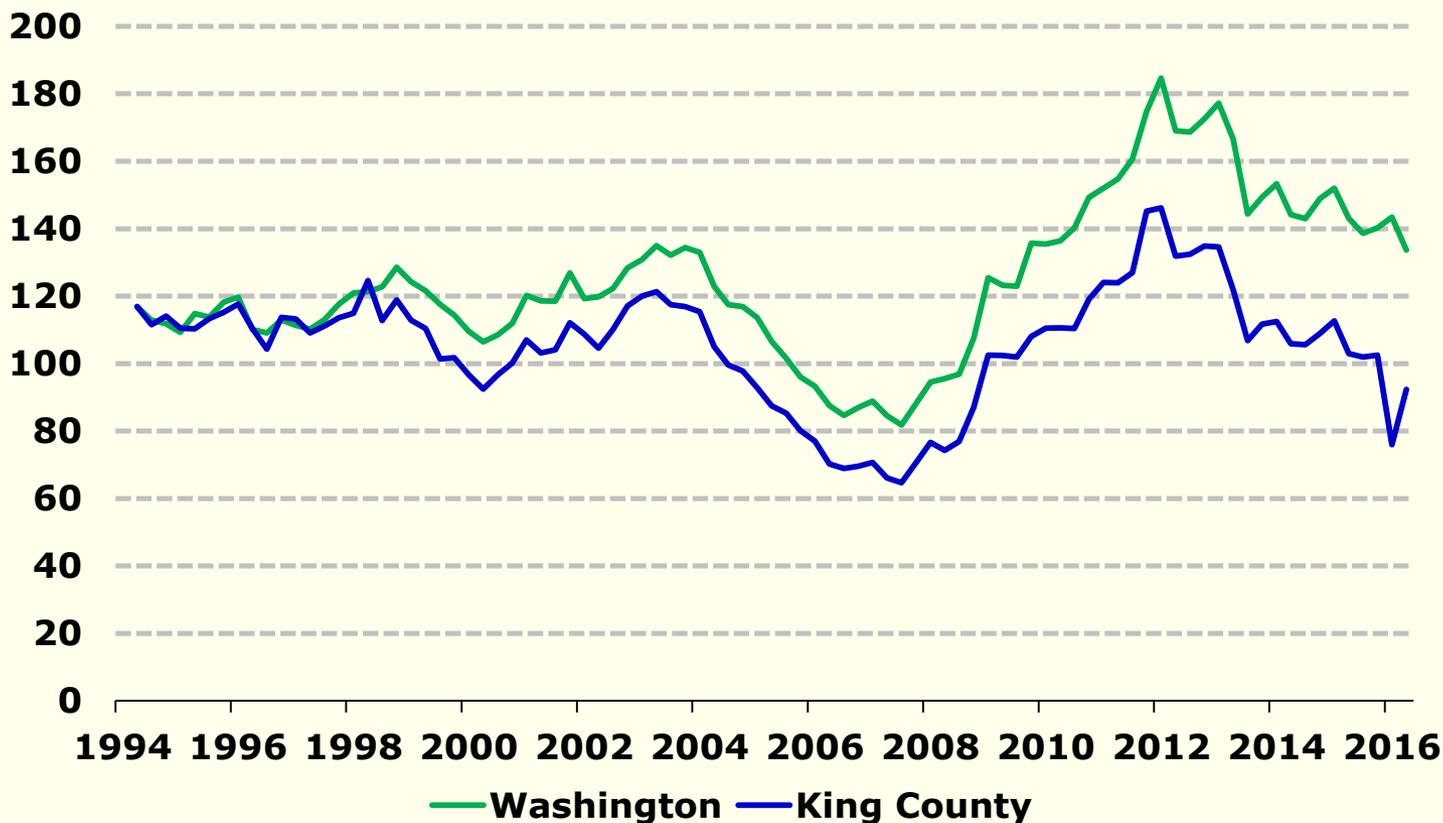




Affordability has been decreasing in recent years, especially in King County

An index score of 100 means a median-income family can afford a median-priced home.

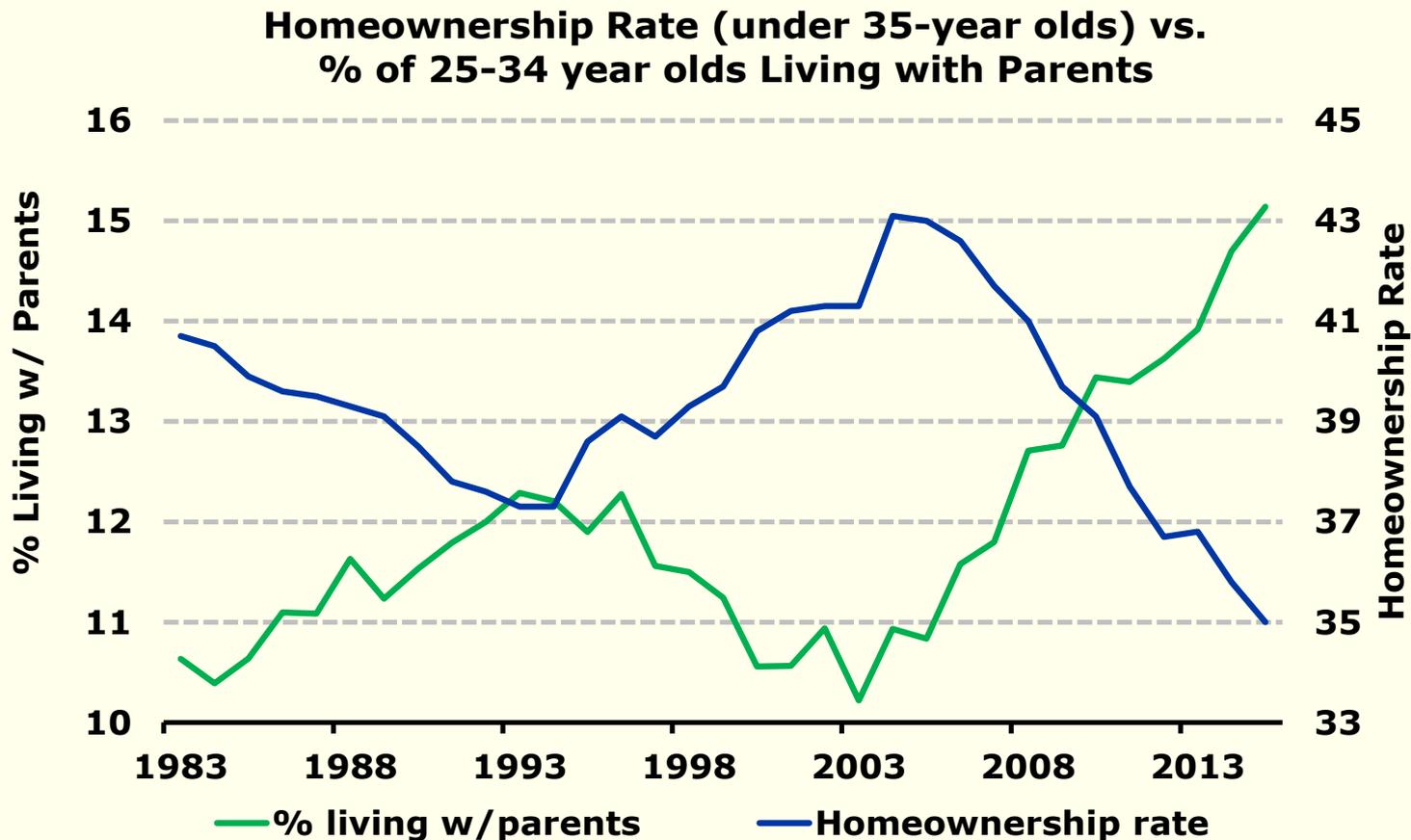
Affordability Index for Washington and King County





Young adults are increasingly living with parents and foregoing home ownership

As the job market continues to improve, young adults are likely to move out and increase demand for housing

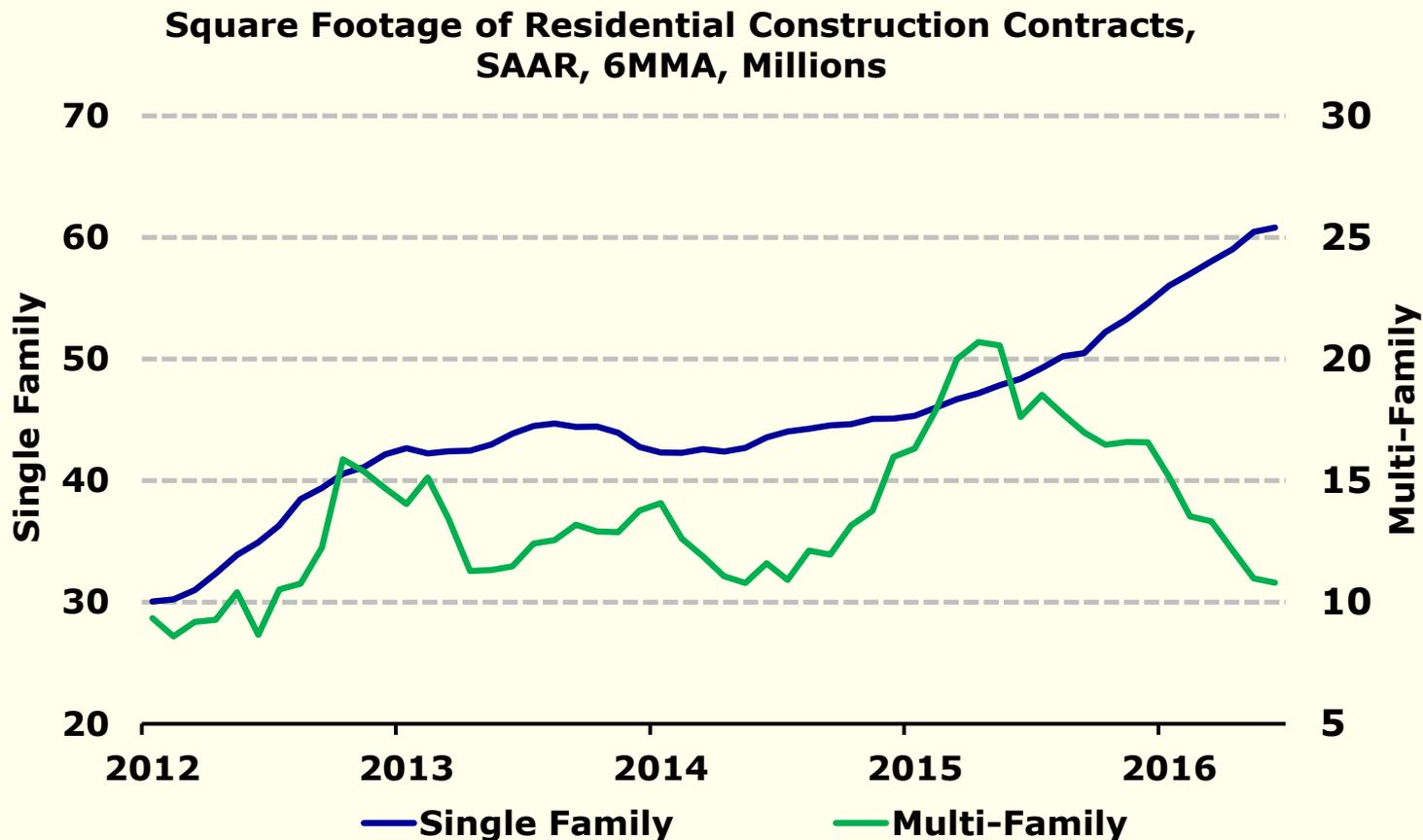


Source: U.S. Census, ERFC, data through 2015



Residential contract data shows shift from multi-family to single family

Single Family square footage is up 26% and Multi-Family is down 39% year over year (6mma).

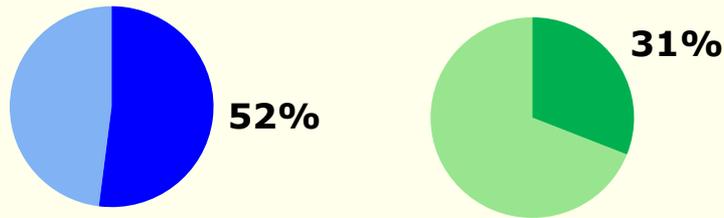




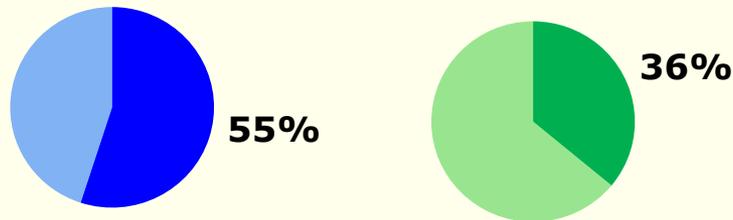
Is Seattle the new San Francisco? Not Quite

■ San Francisco
■ Seattle

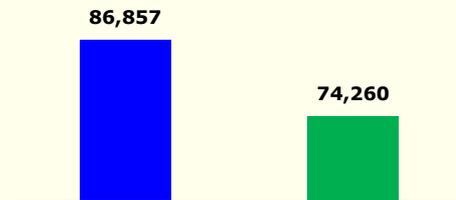
Income Spent on Mortgage



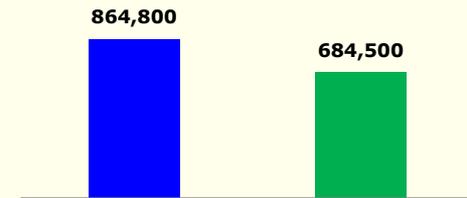
Income Spent on Rent



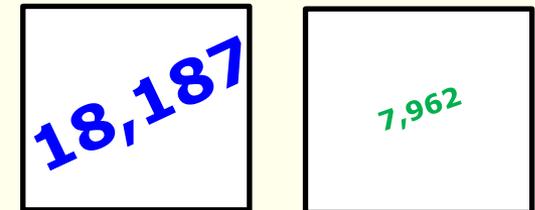
Median Household Income



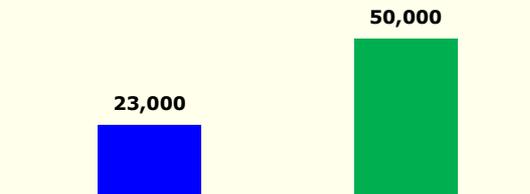
Population



Population Density



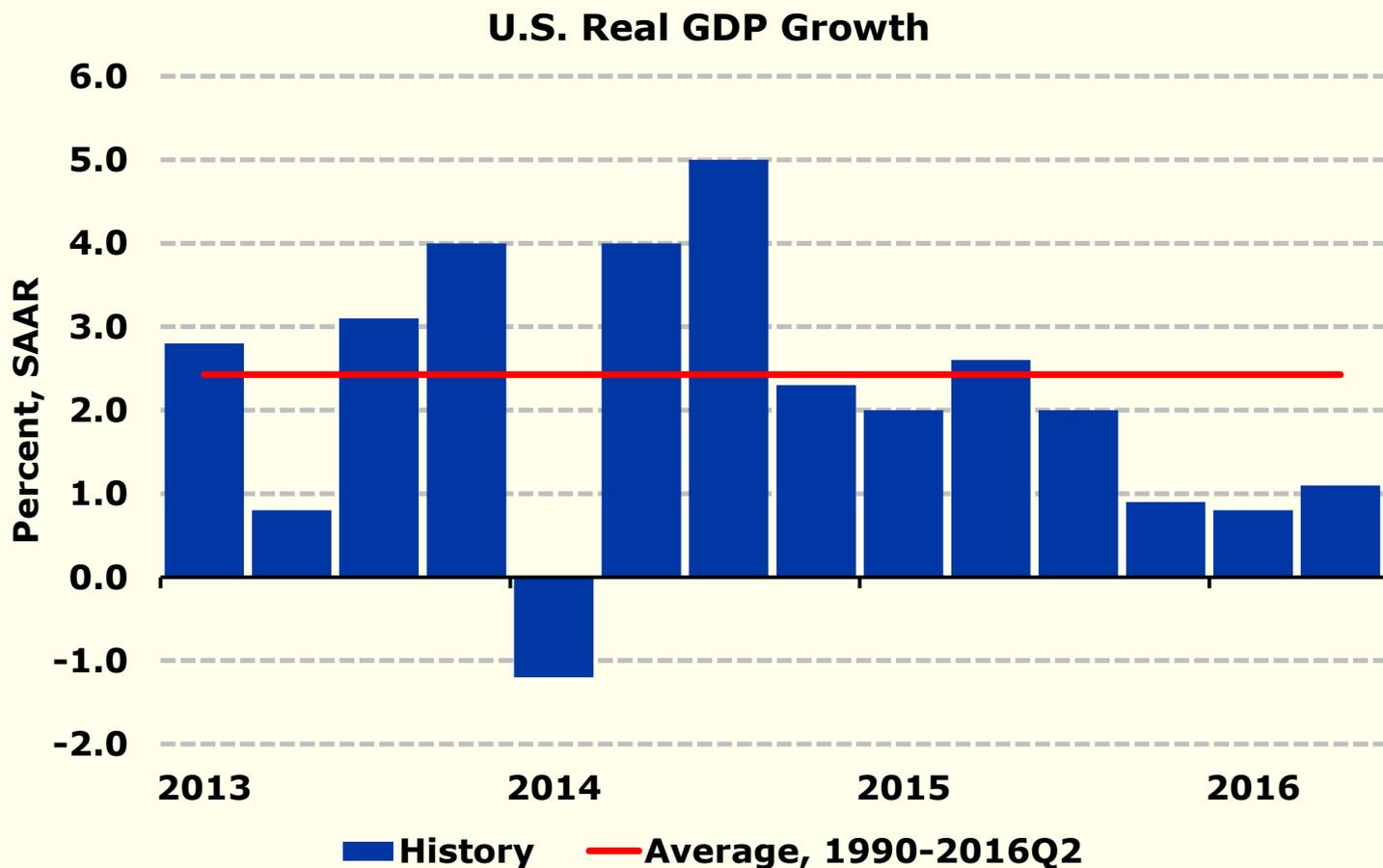
Housing Units Added Since 2005



Source: Census, Zillow, 2016

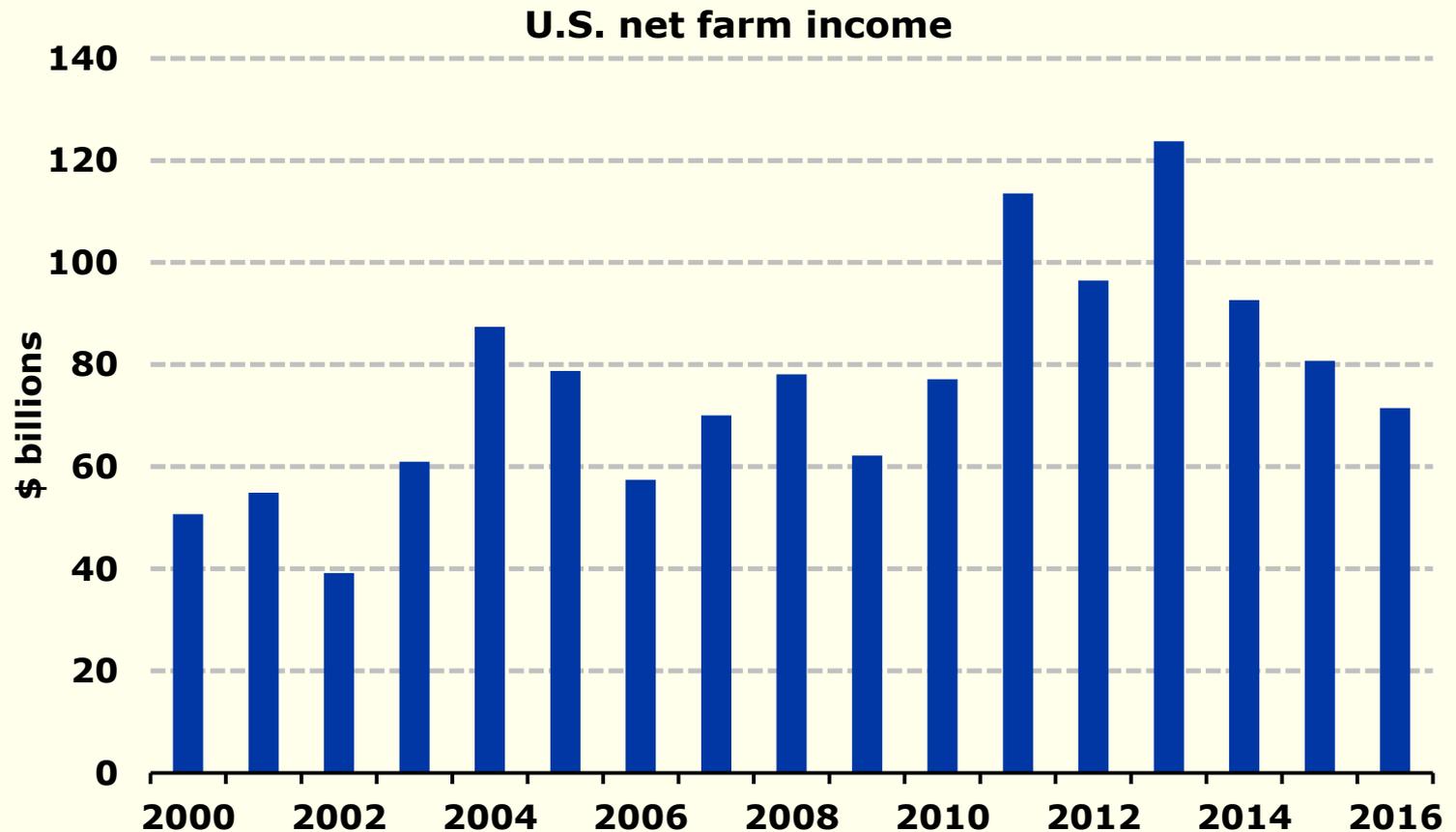


U.S. economic growth weakened in the last three quarters





2016 is expected to be third consecutive year with declining farm sector income



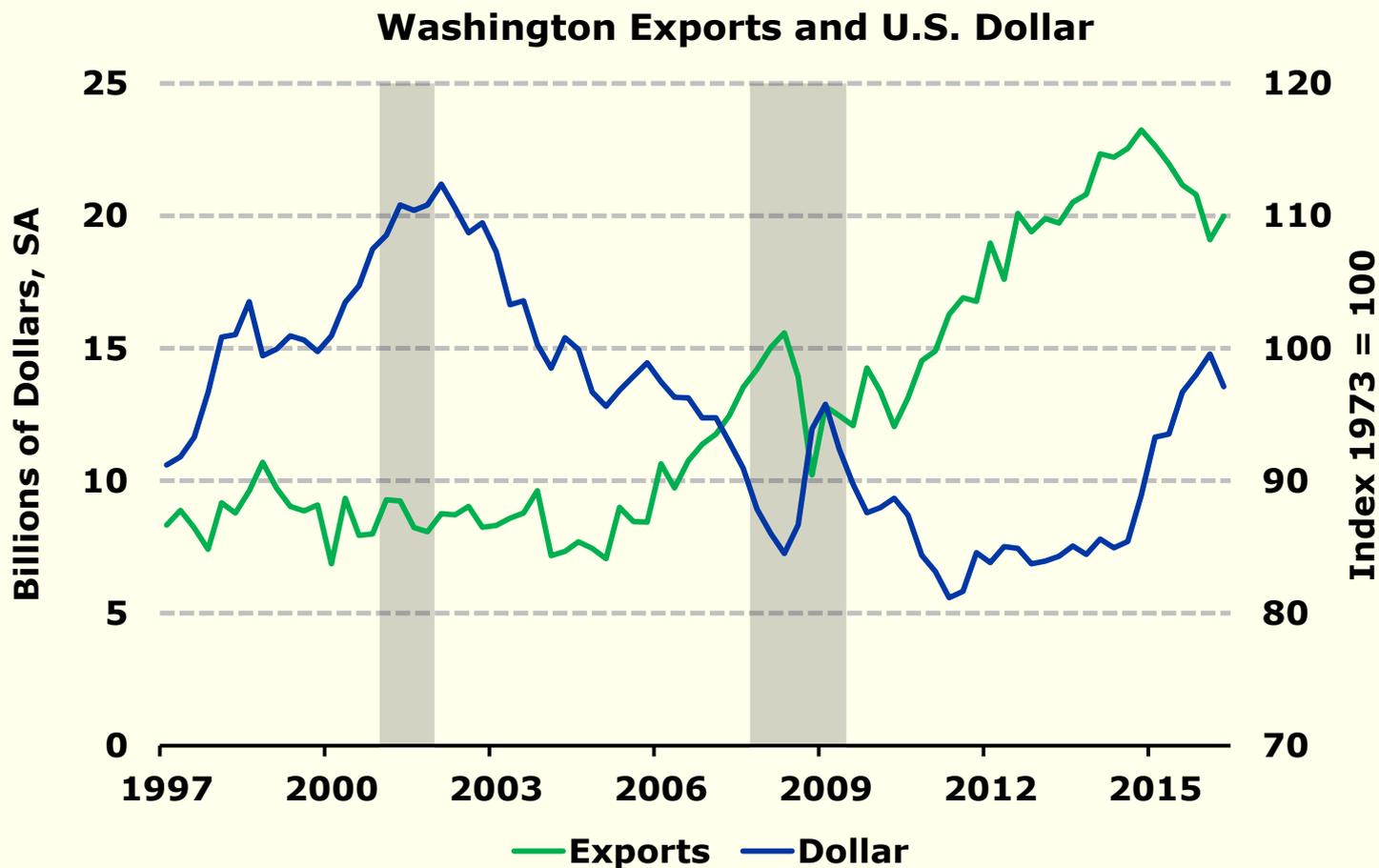


Labor productivity has remained low since 2011





Strong dollar is contributing to a decline in exports



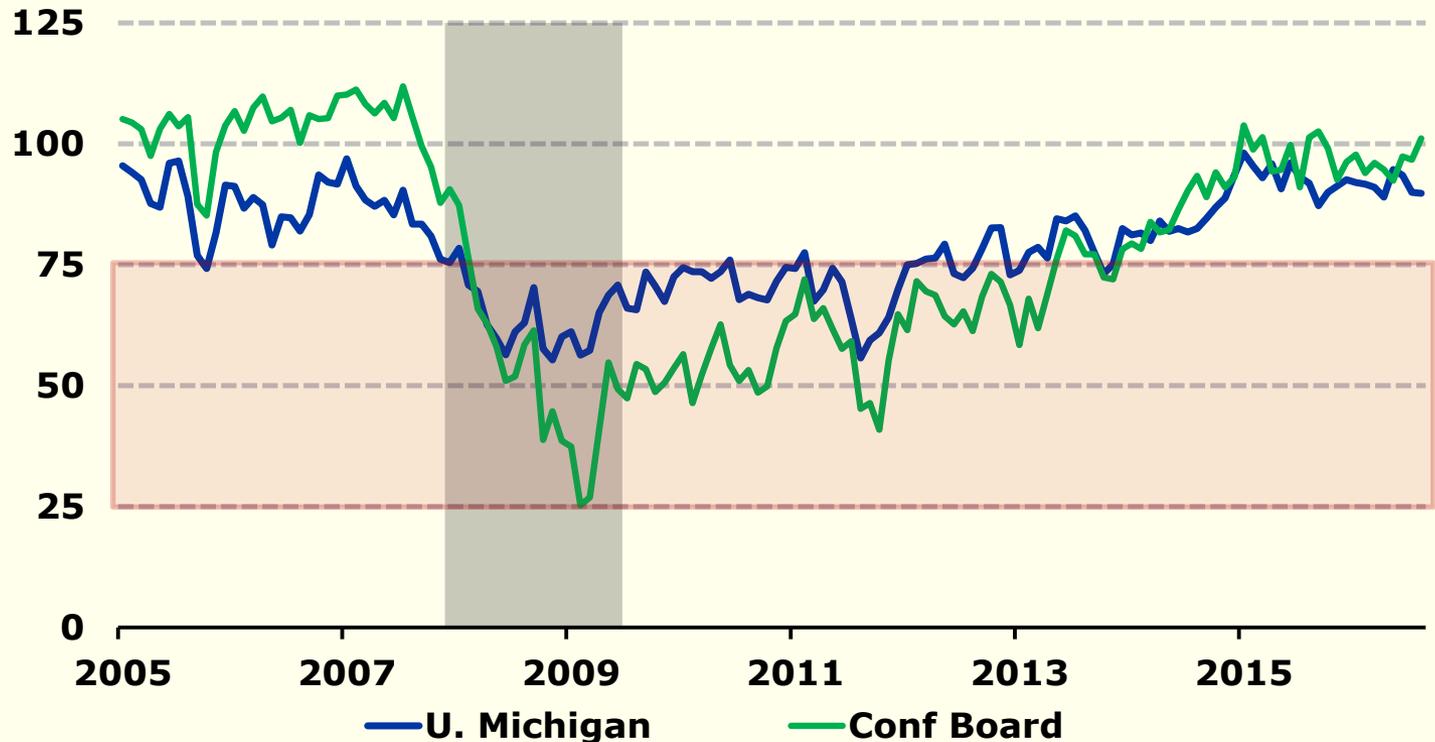


Consumer confidence trend unclear as University of Michigan, Conference Board indexes diverge

Index

Mich: 1966Q1 = 100, SA

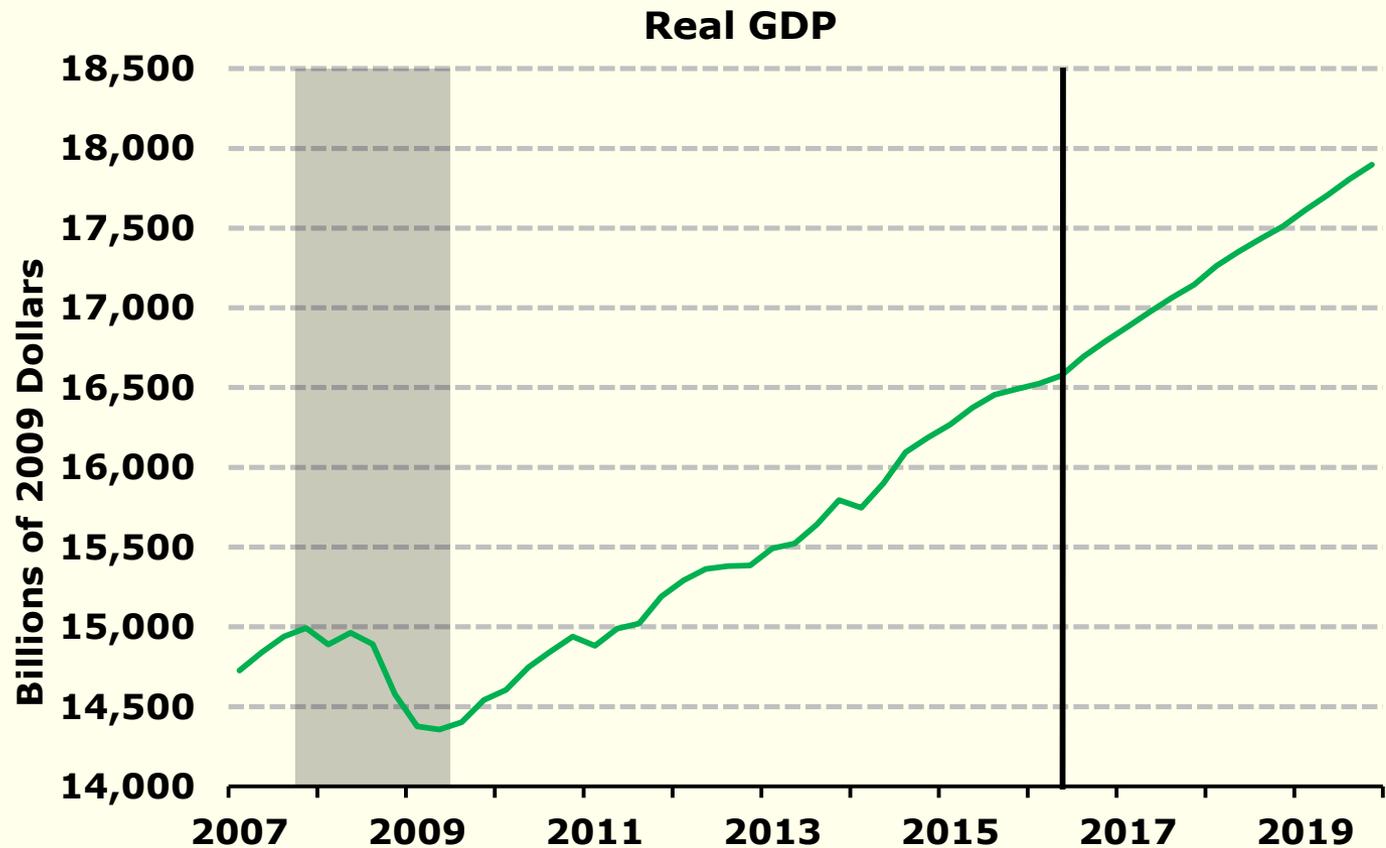
Conf Board: 1985 = 100, SA





Real GDP is expected to grow 2.6% in the second half of 2016 and 2.2% in 2017

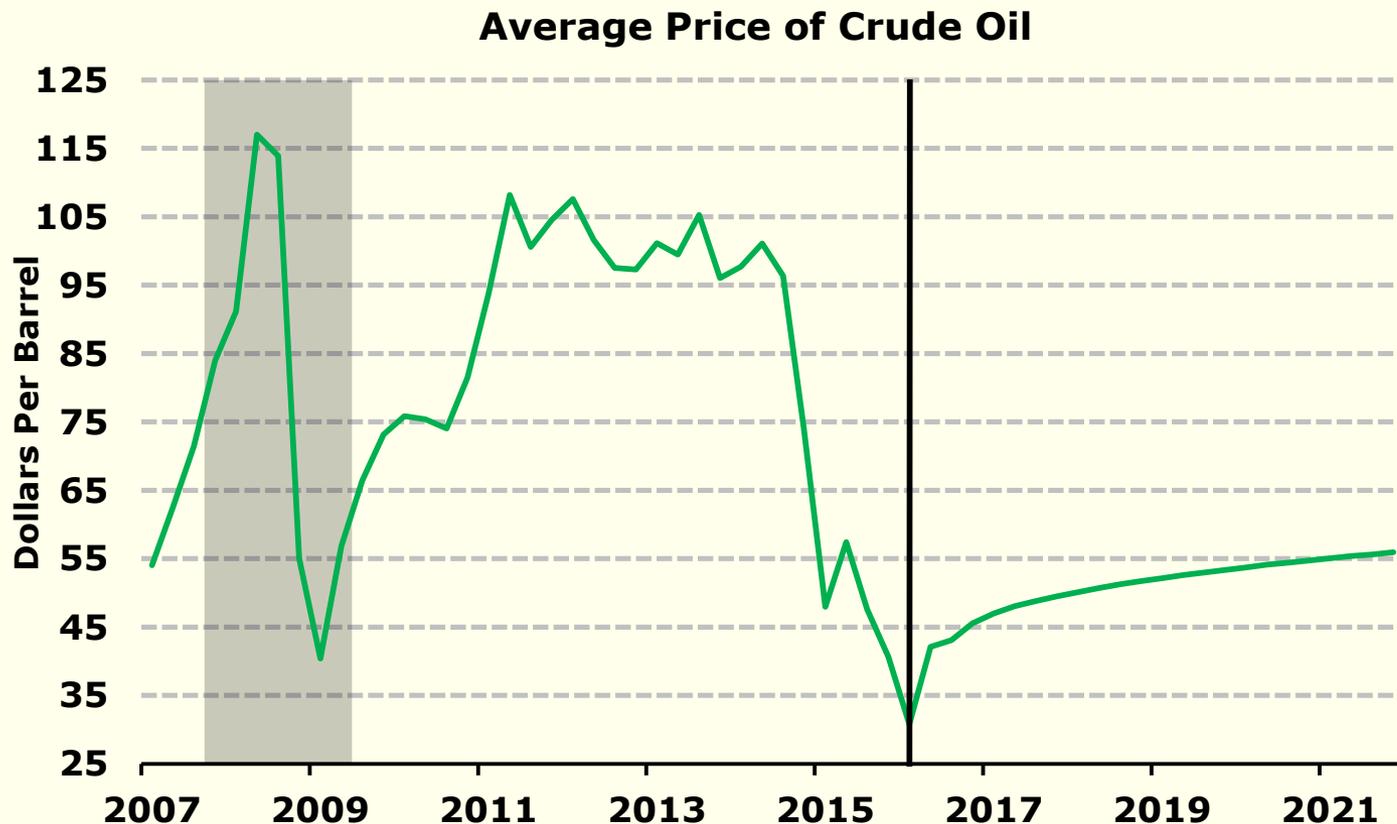
The GDP forecast is almost unchanged from our June forecast.





Oil prices are expected rise through 2021 but remain relatively low

We base our oil price forecast on futures prices for Brent and West Texas Intermediate oil.

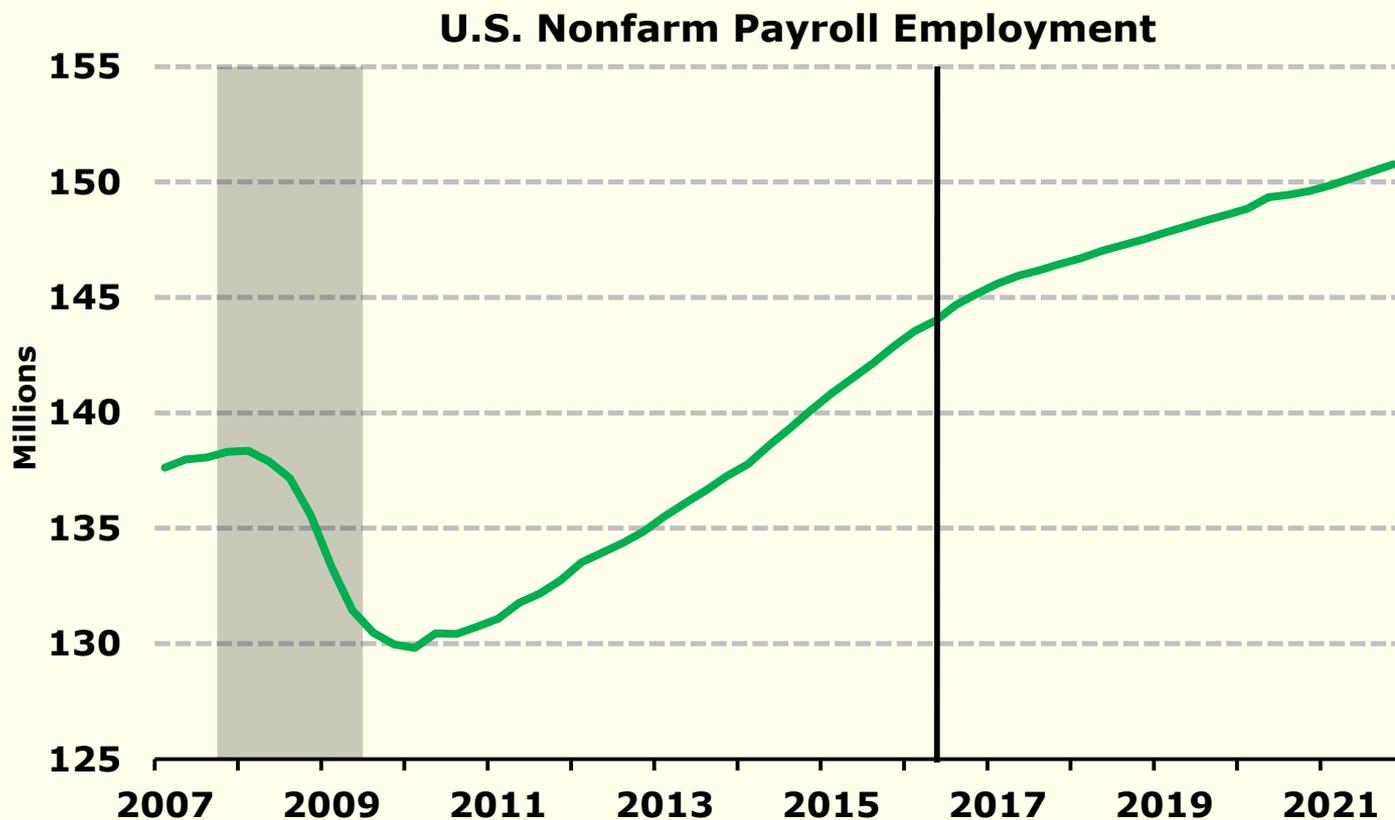


Source: DOE, ERFRC September 2016 Preliminary forecast; historical data through 2016Q2



U.S. nonfarm payroll employment is expected to grow 1.6% in the second half of 2016 and 1.2% in 2017

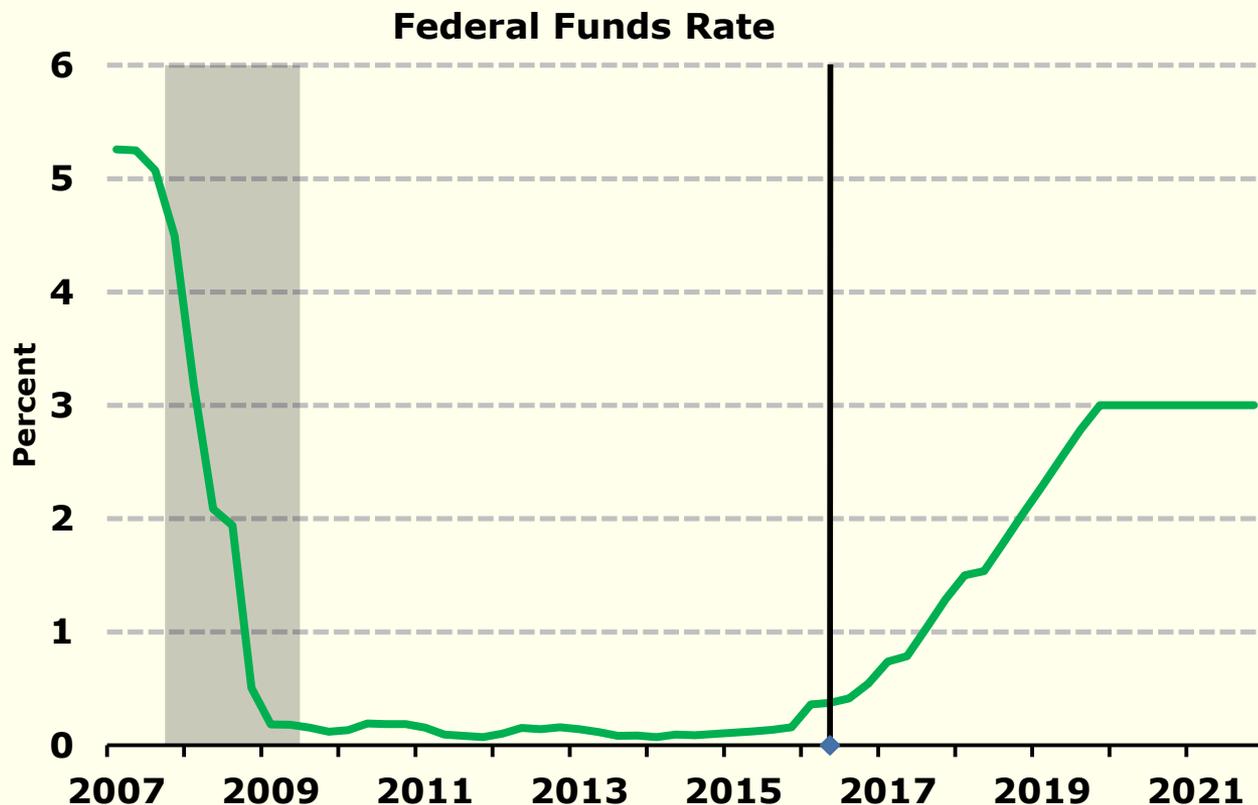
Our U.S. employment forecast is very similar to our previous June forecast.





The Fed funds rate increases are slightly delayed

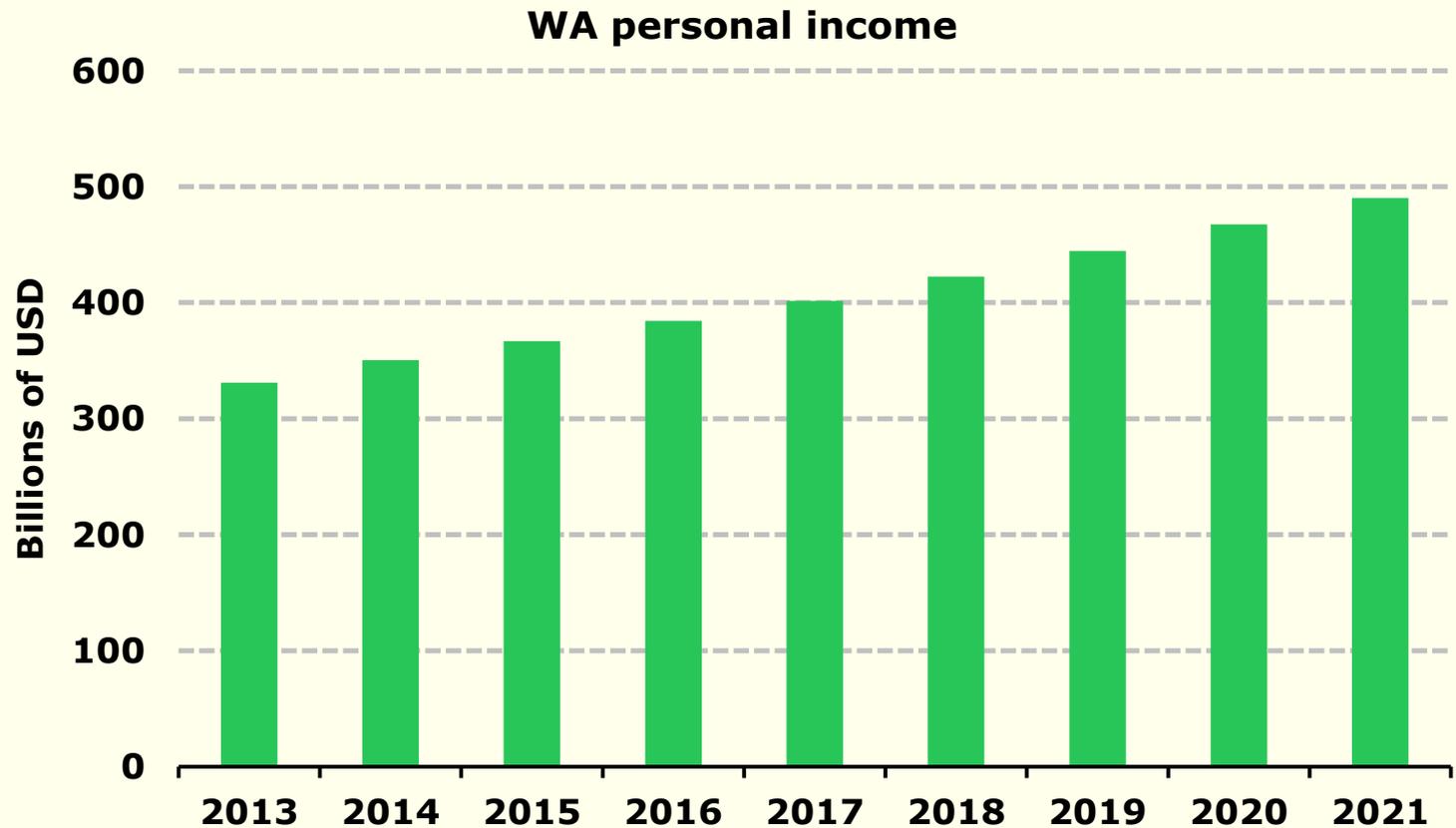
The forecast assumes the Fed will wait until December to raise interest rates. The rate will rise gradually, eventually reaching 3.00%.





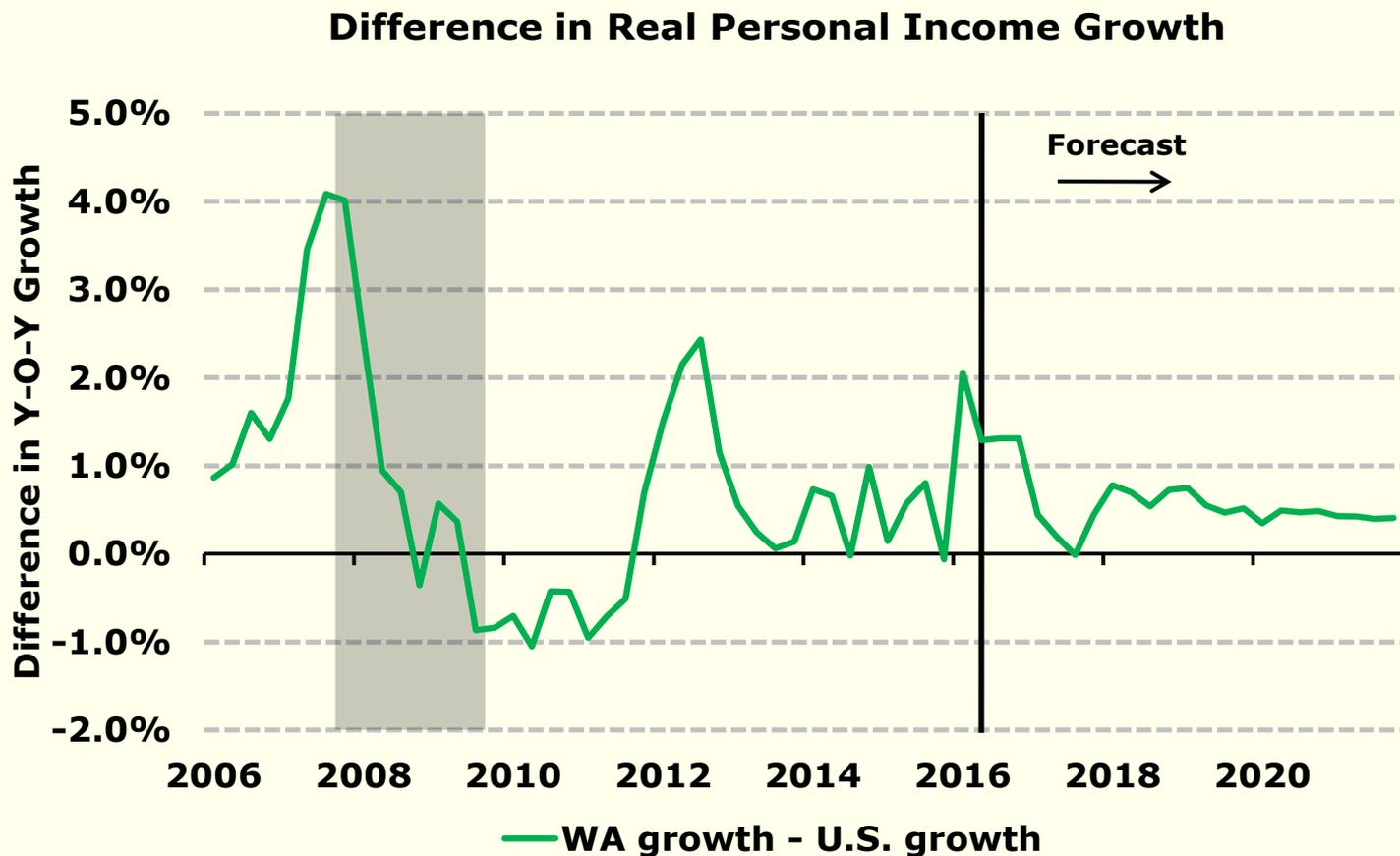
WA personal income is expected to grow 3.6% for the rest of 2016 and 4.5% in 2017

WA personal income has been revised up slightly compared to our June forecast.





State personal income will grow slightly faster than the U.S.

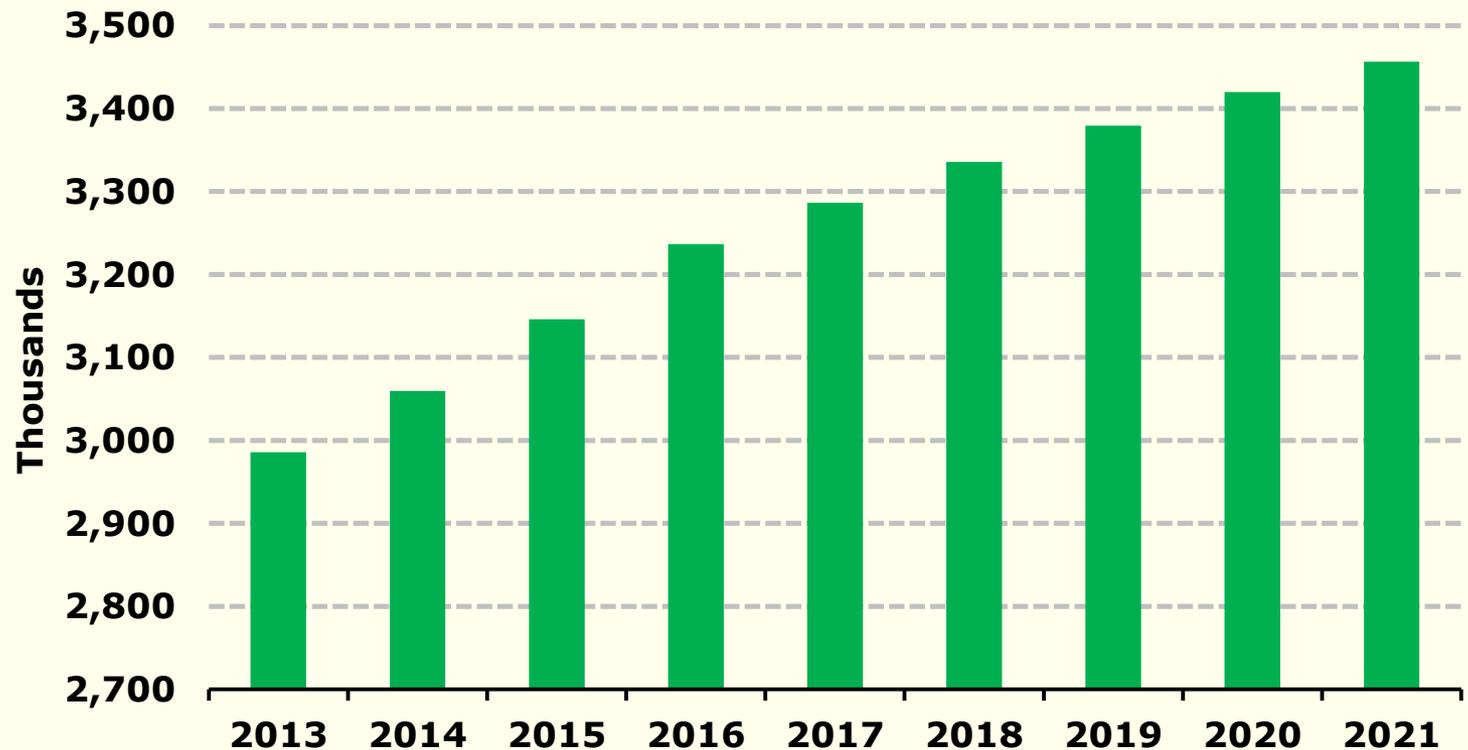




Washington employment is expected to grow by 2.9% this year before slowing to 1.5% growth in 2017

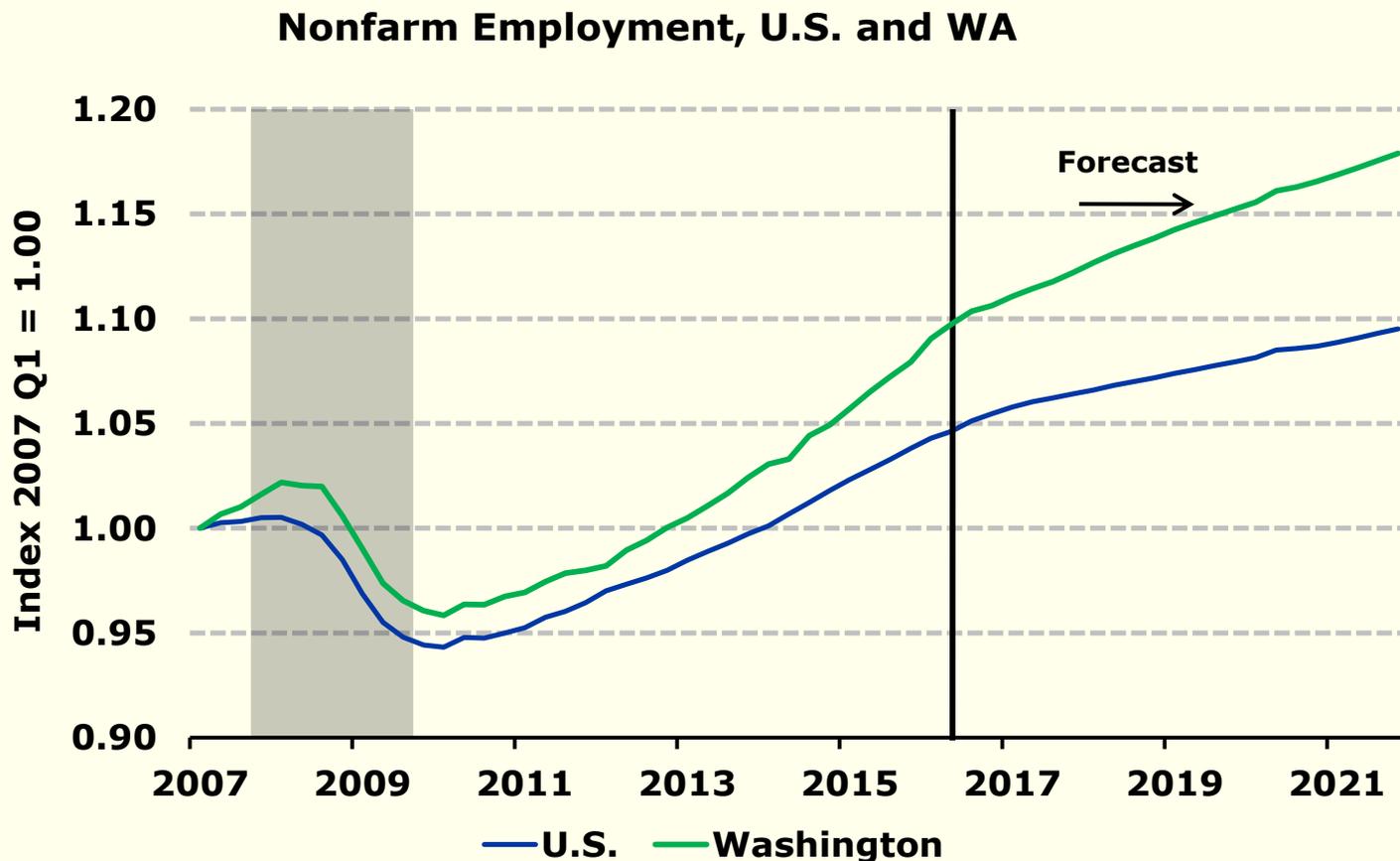
WA employment is stronger than expected in our June forecast.

Washington Nonfarm Payroll Employment





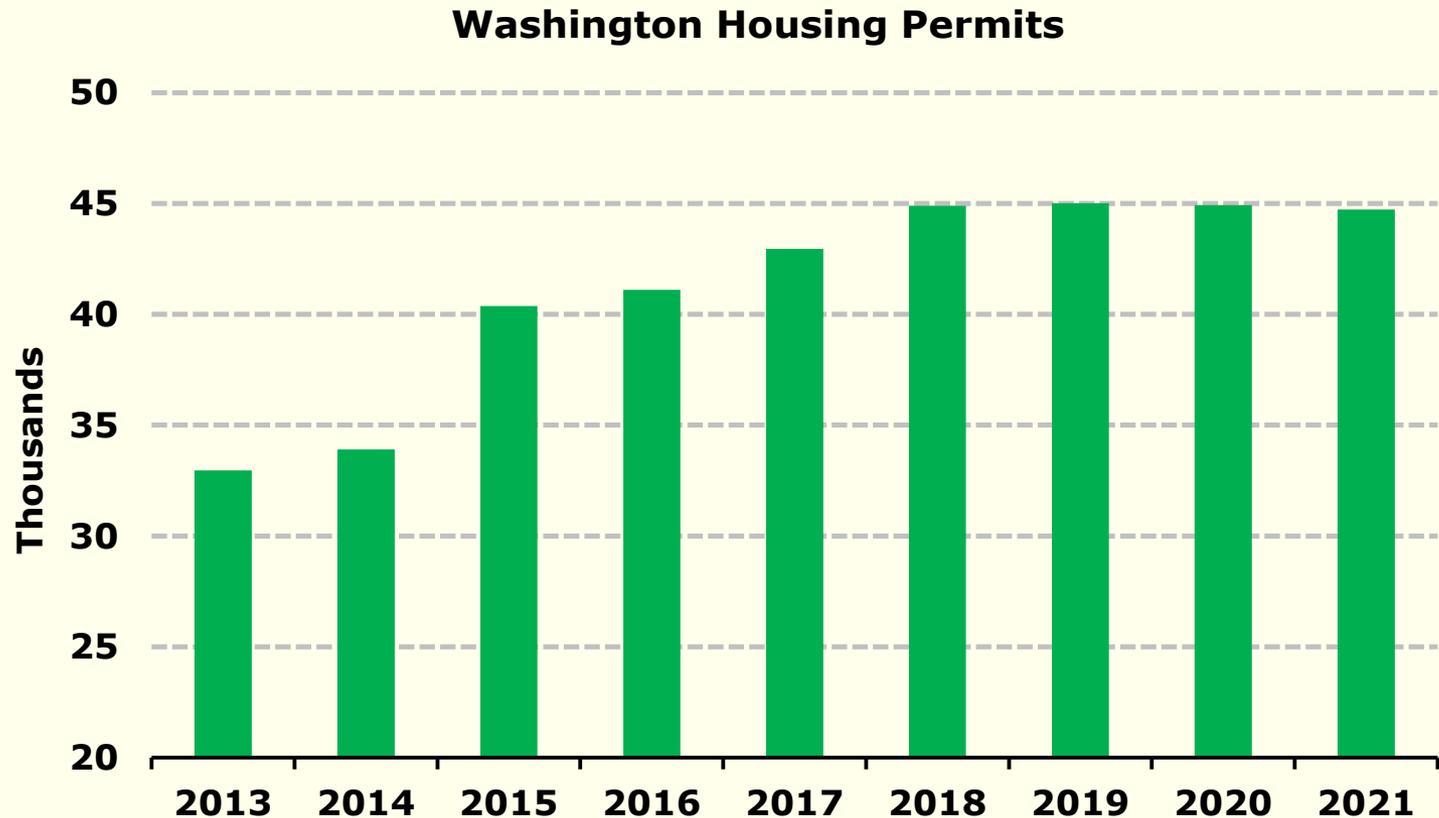
Washington employment will continue to grow slightly faster than the U.S.





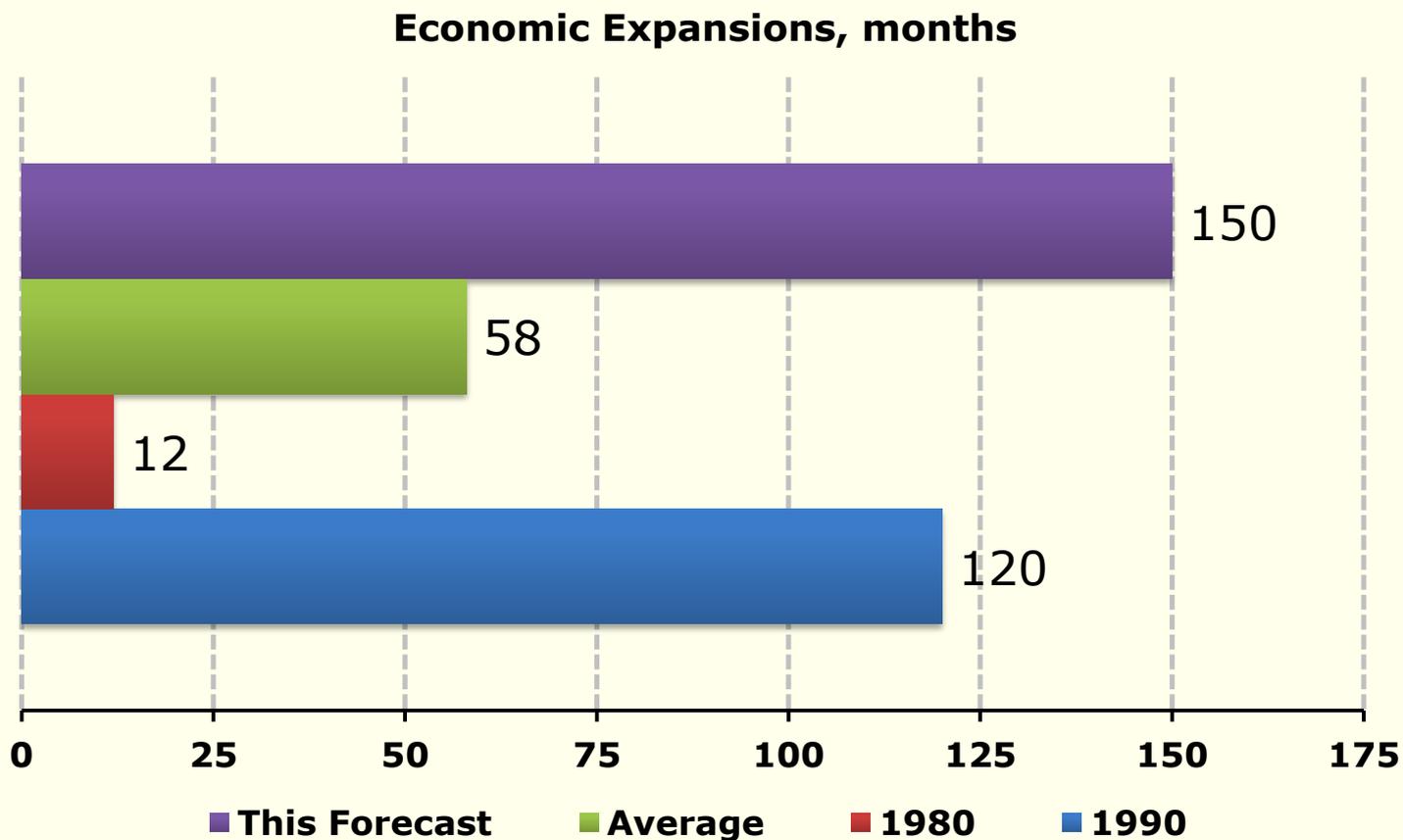
Washington housing permits are expected to peak in 2019 before slowing slightly

WA housing permit forecast is slightly stronger compared to our June forecast.





U.S. Economic Expansions since 1945





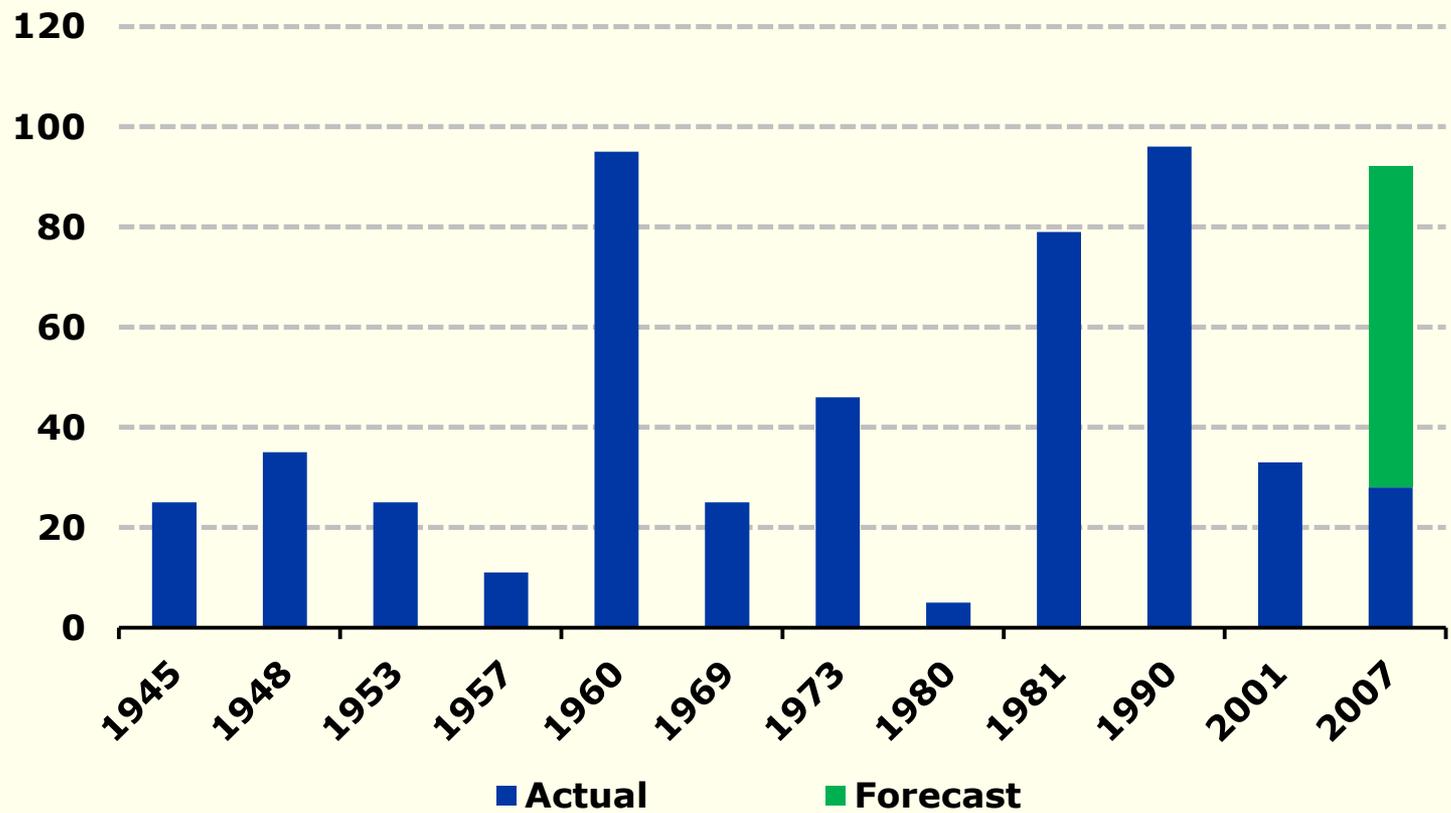
Wall Street Journal economist survey indicates risk of recession has increased but remains low





Initial slow recovery points to extended expansion

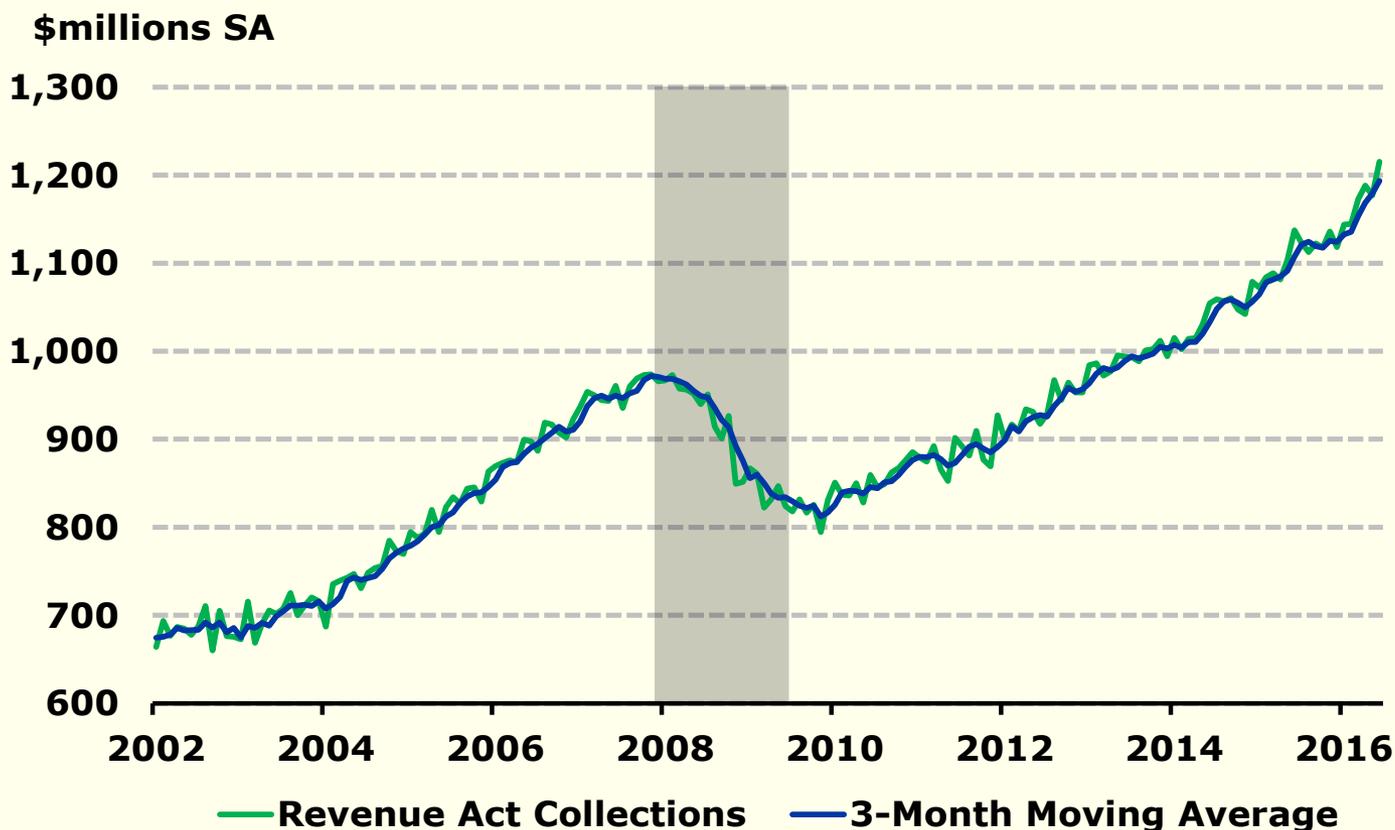
Months of Recovery After Reaching Previous Peak in Employment



Sources: NBER, ERFC September 2016 Preliminary forecast



Revenue Act collections for June economic activity were strong



* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated June 2016 activity



Large commercial property sales continue to have major impact on REET collections

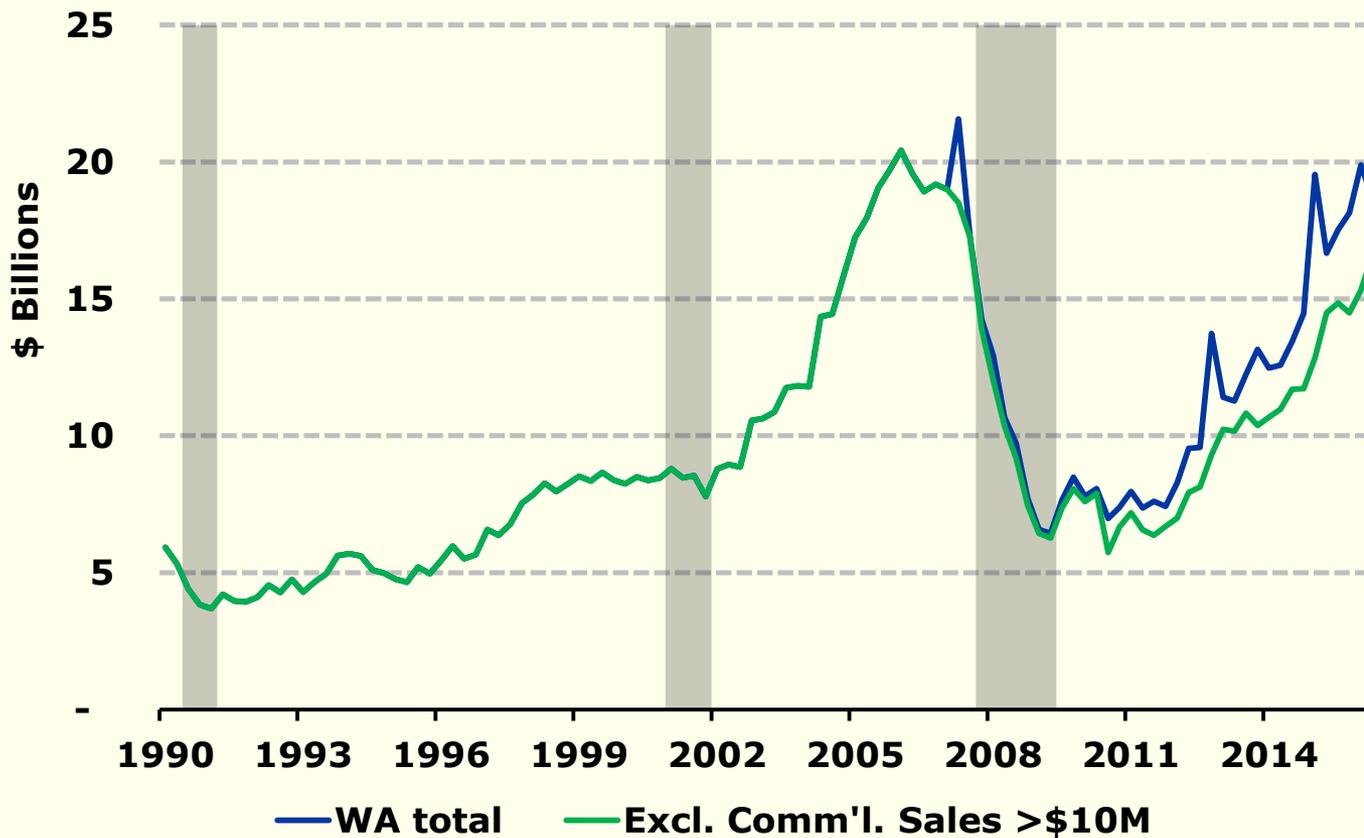
Large commercial property sales over \$10 million totaled \$1.6 billion in July.

Recent strong growth in residential activity is due more to price than volume.

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September 15, 2016

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Taxable real estate sales, SA

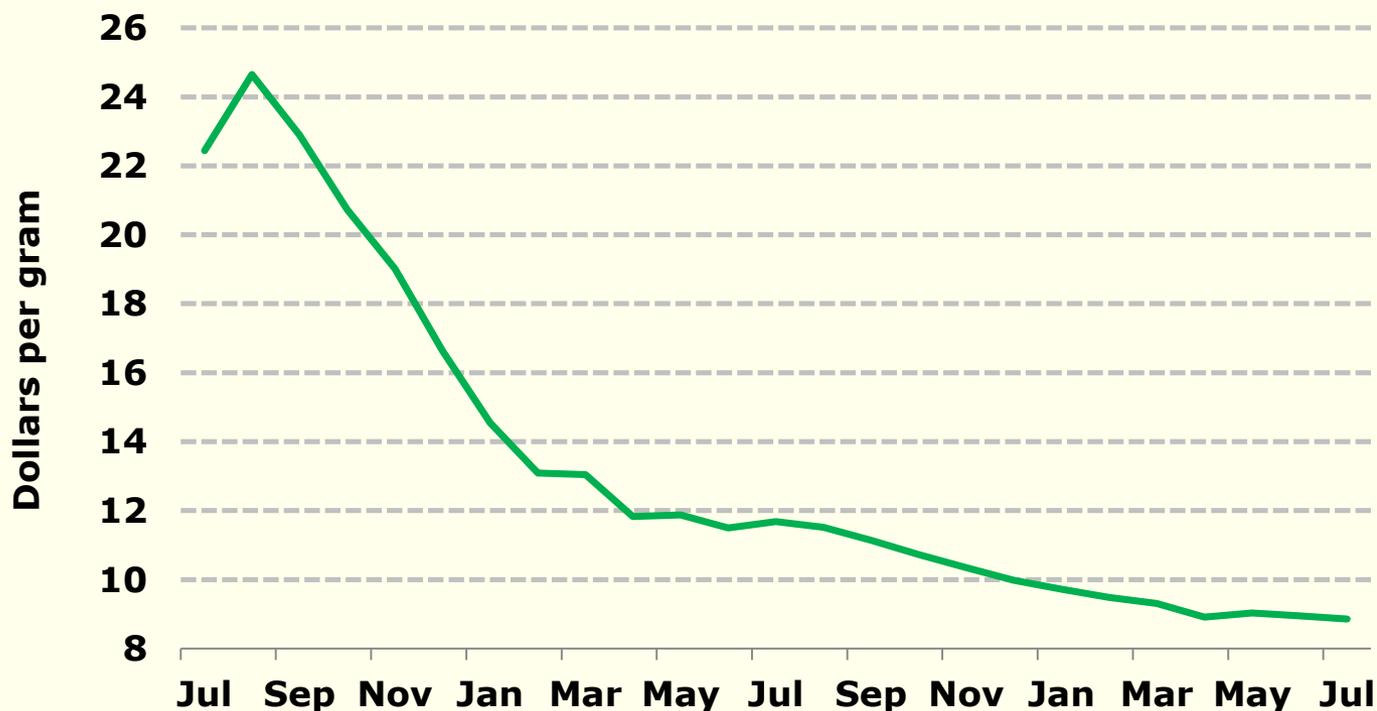


Source: ERFC, data through 2016 Q2



The price of cannabis may be nearing a floor

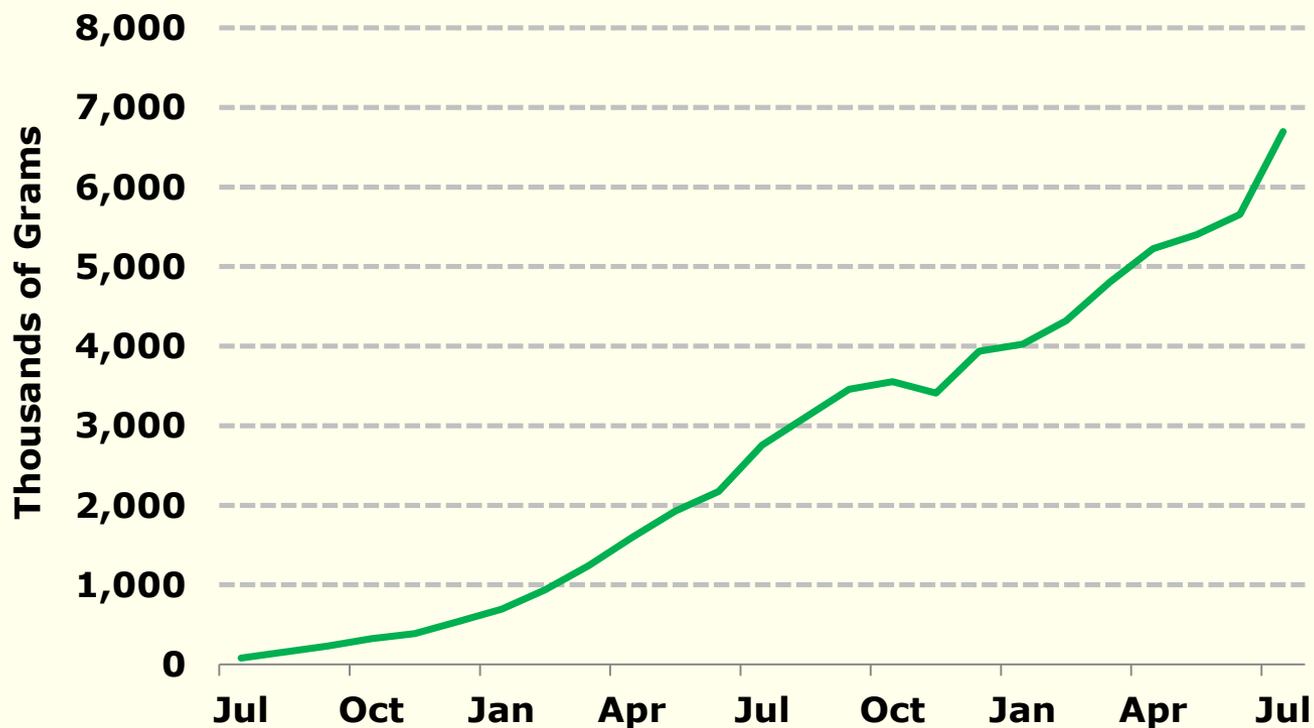
Price of Recreational Cannabis Sold at Retail Stores





Quantity of usable cannabis sold jumped in July

Quantity of Recreational Cannabis Sold at Retail Stores

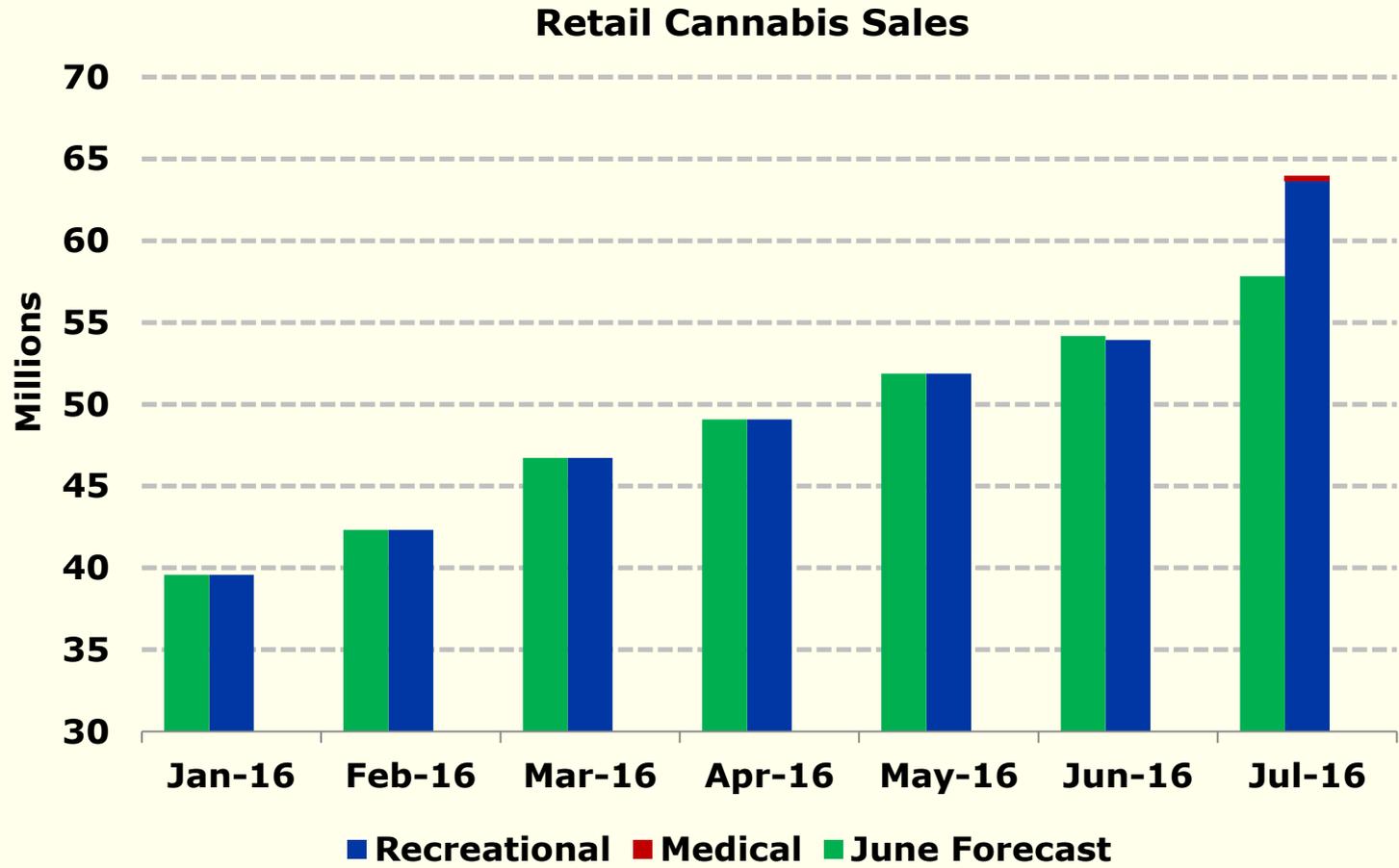


Source: LCB, ERFC; data through July 2016



Cannabis revenue continues to increase

Retail medical sales became subject to the 37% excise tax on July 1, 2016



Source: LCB, ERFC; data through July 2016



Conclusion

- The WA economic forecast is slightly stronger than in June; we continue to expect moderate growth
- As has been the case for some time, Washington is continuing to outperform the nation by a small margin
- Threats to economic expansion include slower domestic and international economic growth, the impact of a stronger dollar on exports, and a slowdown in labor productivity
- The next monthly revenue collection report will be available on September 12th and the revenue forecast will be presented on September 21st



Questions



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